

Message Text

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ACTION ARA-10

INFO OCT-01 SS-14 ISO-00 CIAE-00 DODE-00 NSAE-00

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 9958

C O N F I D E N T I A L LIMA 4045

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, PE

SUBJECT: PERUVIAN FINANCIAL CRISIS: SOME NEW MEASURES ANNOUNCED

REF: STATE 117540

1. GOP ON MAY 10 PUBLISHED SOME 13 NEW DECREE LAWS RELATED TO FISCAL OPERATIONS, 11 OF WHICH ARE PRIMARILY AIMED AT INCREASING REVENUES. NEW OR INCREASED TAXES ON IMPORTS, EXPORTS, AND GOOD AND SERVICES ARE THE MAJOR MEASURES. OUR PRELIMINARY ANALYSIS (WHICH WE HAVE CHECKED OUT WITH GOP AND PRIVATE SOURCES) SUGGESTS THAT NEW MEASURES WILL HAVE REVENUE IMPACT IN 20-25 BILLION SOLES RANGE. OTHER OFT-DISCUSSED MEASURES HAVE NOT BEEN ANNOUNCED, ALTHOUGH EXCHANGE RATE (OPERATING UNDER GOP-SPONSORED "GENTLEMEN'S AGREEMENT") WAS ALLOWED TO MOVE FROM 130/\$ MAY 9 TO 140/\$ ON MAY 10. EXCEPT FOR ONE MINOR MEASURE, MAY 10 LAWS DO NOT CONTIAN CUTS IN PUBLIC SECTOR EXPENDITURES, NOR ARE REMAINING FOOD SUBSIDIES AFFECTED. POLITICALLY SENSITIVE GASOLINE PRICE INCREASE WAS AVOIDED AS WELL.

2. PRIVATE SECTOR BANKERS HERE FEAR THAT THESE MEASURES MAY BE INSUFFICIENT IN THEMSELVES TO MEET WITH IMF AND FOREIGN COMMERICAL BANK APPROVAL, ALTHOUGH MINISTER
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SAENZ DOES APPARENTLY HAVE IMF DOCUMENT IN HAND WHICH INDICATES THAT IMF RECOGNIZES GOP HAS TAKEN "SOME MEASURES" TO STABILIZE ECONOMY. U.S. BANK REPRESENTATIVES REPORTS THAT GOP HAS MADE DESPERATE PLEA TO FOREIGN COMMERICAL BANKS TO UNDERSTAND THAT POLITICAL RELAITIES IN PERU PRECLUDE TAKING ESPECIALLY-SENSTITITIVE MEASURES SUCH AS REMOVAL OF FOOD SUBSIDIES AND GASOLINE PRICE

INCREASES UNTIL AFTER JUNE 4 CONSTITUENT ASSEMBLY.
GOP IS NOW URGING PRIVATE BANKS TO ROLL OVER
PRUBLIC SECTOR MATURITIES FOR 90 DAYS AS GOP CONTINUES
WITH IMF TALKS. BANKS ACCORDING TO LOCAL REP ARE MORE
INCLINED TO GRANT 30 DAY ROLLORVER, WITH AN ADDITIONAL
30 DAYS IF GOP DOES IN FACT ANNOUNCED FURTHER MEASURES
URING FIRST WEEK IN JUNE.

3. IN VIEW OF CRITICAL LACK OF FOREIGN EXCHANGE,
CENTRAL BANK PRESIDENT GERMAN DE LA MELENA AND DIRECTOR
GENERAL OF PUBLIC CREDIT FERNANDO REUS ARE REPORTEDLY
IN EUROPE NOW TALKING INTER ALIA WITH DRESDBANK TO
TRY AND ARRANGE MEETING OF INTERNATIONAL STEERING
COMMITTEE IN NEW YORK ON MAY 12, OR POSSIBLY MAY 16.

MANUFACTURERS HANOVER AND CITIBANK ARE APPARENTLY AGREEABLE
TO STEERING COMMITTEE MEETING. SITUATION IS SO DESPERATE
ACCORDING TO ONE PRIVATE SECTOR ECONOMIST, THAT TALK
OF PLEDGING PERU'S GOLD RESERVES IS ONCE AGAIN BEING
HEARD.

4. EMBASSY IS PREPARING FURTHER ANALYSIS OF NEW
MEASURES OUTLINED PARA 1 AND WILL TRANSMIT SEPTEL.
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